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Y BILTMORE
ANNUAL
REPORT
1977



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five year financial summary

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Income					
Sales	\$10,895,305	\$8,807,211	\$7,793,668	\$6,853,181	\$6,058,752
Net income for year	<u>353,703</u>	<u>280,078</u>	<u>234,926</u>	<u>236,634</u>	<u>220,527</u>
Earnings per share					
Undiluted	\$1.076	82.6 ¢	67.4 ¢	68.1 ¢	62.9 ¢
Fully diluted	79.3 ¢	62.8 ¢	51.5 ¢	52.0 ¢	48.3 ¢
Financial Position					
Working Capital	1,533,638	1,385,389	1,203,730	1,059,667	894,065
Fixed Assets—net	462,430	347,655	342,479	344,694	361,886
Other Assets	<u>481,267</u>	<u>430,797</u>	<u>380,322</u>	<u>342,815</u>	<u>311,160</u>
	2,477,335	2,163,841	1,926,531	1,747,176	1,567,111
Long-Term Debt	5,400	8,100	10,800	13,500	16,700
Deferred income taxes	28,700	13,300	400	—	—
	<u>34,100</u>	<u>21,400</u>	<u>11,200</u>	<u>13,500</u>	<u>16,700</u>
Shareholders' Equity	\$ <u><u>2,443,235</u></u>	\$ <u><u>2,142,441</u></u>	\$ <u><u>1,915,331</u></u>	\$ <u><u>1,733,676</u></u>	\$ <u><u>1,550,411</u></u>

Kevin Searns, Jr. Pres.

the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report.

Earnings for the year ending December 31, 1977 were up 26% at \$353,703 or 79.3c per share fully diluted compared with \$280,078 or 62.8c per share for the previous year. Working Capital increased by \$148,249 during the year bringing total working capital to \$1,533,638 or \$3.44 per share based on 446,150 shares. During the year, our accounts receivable have been computerized under the direction of Mr. Norman Irwin, our Secretary-Treasurer. This computerization combined with the good efforts of our Credit Manager, Mr. Albert Amies, has resulted in better accounts receivable turnover.

Headwear operations improved again in 1977. Our casual styles are receiving good acceptance by the consumer, however, most of the raw materials used in our headwear products are imported, consequently, the drastic decline of the Canadian dollar has resulted in sharply increased costs which must be reflected in higher prices for Fall 1978.

Contribution to the corporation's profit from Watson Brothers Ltd., was reduced during the year as competitive market forces put substantial pressure on the company's margins. Steps have been taken to counteract this situation and we look forward to improved performance in 1978. The final contingent payment for Watson is reflected in this year's statements.

The substantial increase in sales of the corporation largely reflects the sales to the automotive industry by Custom Leather Products Ltd. The development of this new business has presented many challenges to Custom's management and I am happy to report that this new division made a contribution to profit in its first full year of operations. All capital expenditures are being written off over the life of the relevant contracts, consequently, the corporation's depreciation charges in 1977 were \$158,536 as opposed to \$57,514 the previous year. While the automotive business was successful in 1977, the results of Custom's consumer products division fell sharply below last year. We have initiated action to return this division's performance to its previous levels.

We express our appreciation for the full support and co-operation of our co-workers, as well as thousands of mens' wear retailers from coast-to-coast, all of whom contributed to our success in 1977.

ON BEHALF OF THE BOARD OF DIRECTORS,

A handwritten signature in cursive script, reading "Michael McMillan".

Michael McMillan,
President.

consolidated statement of income

	Year Ended December 31	
	1977	1976
Sales	<u>\$10,895,305</u>	<u>\$8,807,211</u>
Cost of sales	<u>7,701,658</u>	<u>5,730,575</u>
Selling, general and administrative expenses	<u>2,625,744</u>	<u>2,594,158</u>
	<u>10,327,402</u>	<u>8,324,733</u>
Income before taxes	567,903	482,478
Income taxes—Current	198,800	189,500
—Deferred	<u>15,400</u>	<u>12,900</u>
	<u>214,200</u>	<u>202,400</u>
Net Income	<u>\$ 353,703</u>	<u>\$ 280,078</u>
Earnings per common share based on the weighted average number of shares outstanding during the year:	107.6¢	82.6¢
Fully diluted earnings per share (Note 1)	79.3¢	62.8¢

consolidated statement of retained earnings

Balance at beginning of year	\$1,906,978	\$1,679,868
Net income	<u>353,703</u>	<u>280,078</u>
	2,260,681	1,959,946
Dividends:		
Preferred shares	38,267	38,326
Common shares	<u>14,642</u>	<u>14,642</u>
	<u>52,909</u>	<u>52,968</u>
Balance at end of year	<u>\$2,207,772</u>	<u>\$1,906,978</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated balance sheet

Assets

	December 31	
	1977	1976
Current:		
Cash	\$ 199,102	\$ 218,160
Accounts receivable	1,607,035	1,557,442
Inventories (Note 2)	2,680,482	2,154,118
Prepaid expenses	1,706	373
	<u>4,488,325</u>	<u>3,930,093</u>
Cash surrender value of life insurance	4,317	3,847
Fixed assets, at cost (Note 3)	1,904,384	1,631,073
Less - Accumulated depreciation	1,441,954	1,283,418
	<u>462,430</u>	<u>347,655</u>
Excess of cost of shares in subsidiaries over net book value of assets acquired (Note 4)	476,950	426,950
	<u><u>\$5,432,022</u></u>	<u><u>\$4,708,545</u></u>

Approved by the Board:

D. Michael McMillan, Director

George H. Montague, Director

Liabilities

	December 31	
	1977	1976
Current:		
Bank advances (Note 5)	\$1,847,219	\$1,616,250
Accounts payable and accrued liabilities	970,372	831,394
Notes payable (Note 6)	50,000	50,000
Income taxes payable	75,228	35,162
Dividends payable	9,168	9,198
Current portion of Long-term debt	2,700	2,700
	<u>2,954,687</u>	<u>2,544,704</u>
Long-term debt payable to April 30, 1980	5,400	8,100
Deferred income taxes	28,700	13,300
	<u>2,988,787</u>	<u>2,566,104</u>
Shareholders' Equity		
Capital stock (Note 7)	235,463	235,463
Retained earnings	2,207,772	1,906,978
	<u>2,443,235</u>	<u>2,142,441</u>
	<u>\$5,432,022</u>	<u>\$4,708,545</u>

consolidated statement of changes in financial position

	Year Ended December 31	
	1977	1976
Financial resources were provided by:		
Operations—		
Income	\$ 353,703	\$ 280,078
Add charges which do not affect current funds—		
Depreciation and amortization	158,536	57,514
Deferred income taxes	15,400	12,900
	<u>527,639</u>	<u>350,492</u>
Sale of fixed assets	—	7,218
	<u>527,639</u>	<u>357,710</u>
Financial resources were used for:		
Purchase of fixed assets	273,311	69,908
Increase in cash surrender value of life insurance in subsidiary	470	475
Reduction of long-term debt	2,700	2,700
Dividends	52,909	52,968
Excess of cost of shares in subsidiary company over net book value of assets acquired	50,000	50,000
	<u>379,390</u>	<u>176,051</u>
Increase in working capital	148,249	181,659
Working capital at beginning of year	<u>1,385,389</u>	<u>1,203,730</u>
Working capital at end of year	<u>\$1,533,638</u>	<u>\$1,385,389</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

notes to consolidated financial statements

DECEMBER 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are stated at the lower of cost and net realizable value (cost being determined on a first-in first-out basis).

Fixed Assets and Depreciation

Fixed assets are carried at cost. Depreciation is calculated on a diminishing balance basis at annual rates of 5 percent on buildings, 20 percent on machinery and equipment and 30 percent on automotive equipment. Leasehold improvements are amortized over the life of the lease plus one renewal option term if applicable. Fixed assets and leasehold improvements used in the automotive division of a subsidiary company are depreciated and amortized over the life of the related automotive contracts, an average of one and a half years.

Deferred Income Taxes and Income Taxes payable

Deferred income taxes are provided for expense items reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference, the tax effect of which is reflected under this heading. Provision is made for all income taxes currently payable.

Excess of Cost of Shares in Subsidiaries Over Net Book Value of Assets Acquired

The excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Earnings per Share

Earnings per common share calculations are based on the weighted average number of shares of common stock outstanding during the respective years, after net earnings are reduced for convertible preferred dividend requirements. Fully diluted earnings per share calculations assume the conversion of convertible preferred shares. Fully diluted earnings per share at December 31, 1976 have been restated to exclude the effect of a share option which expired in 1977, and are 1.4c per share more than previously shown.

2. INVENTORIES

	December 31	
	1977	1976
Raw material and supplies	\$1,238,140	\$ 958,510
Work-in-process	809,416	547,218
Finished goods	632,926	648,390
	<u>\$2,680,482</u>	<u>\$2,154,118</u>

3. FIXED ASSETS

	December 31, 1977			December 31, 1976
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	\$ —	\$ 1,850	\$ 1,850
Buildings	430,167	247,424	182,743	192,361
Machinery and equipment				
Consumer division	1,227,950	1,061,639	166,311	124,518
Automotive division	161,647	74,731	86,916	14,903
Leasehold improvements				
Consumer division	40,479	32,824	7,655	14,023
Automotive division	42,291	25,336	16,955	—
	<u>\$1,904,384</u>	<u>\$1,441,954</u>	<u>\$462,430</u>	<u>\$347,655</u>

4. GOODWILL

The excess of cost of shares in subsidiaries over net book value of assets acquired has increased by \$50,000 in 1977 as a result of the final payment made in accordance with an agreement pertaining to the acquisition of the shares of a subsidiary in 1973.

5. BANK LOANS AND ADVANCES

The Company and its subsidiaries have pledged accounts receivable and inventories with a carrying value of \$4,287,517 as security for bank advances of \$1,847,219.

6. NOTES PAYABLE

Included in notes payable are notes (\$40,000) convertible at the option of the holders into a maximum of 10,667 common shares at the rate of 1 common share for each \$3.75 of principal amount.

7. CAPITAL STOCK

a) Authorized

158,000 convertible preferred shares without par value, entitled to cumulative dividend of 25c per share per annum, each convertible into common shares on a share for share basis.
2,000,000 common shares without par value.

	1977	1976
b) Issued		
152,805 convertible preferred shares		
(153,305 in 1976)	\$ 32,653	\$ 32,760
293,345 common shares (292,845 in 1976) including 500 (1,220 in 1976) shares issued on conversion of preferred shares	202,810	202,703
	<u>\$235,463</u>	<u>\$235,463</u>

notes to consolidated financial statements

continued

c) Common shares reserved

For the conversion of convertible

preferred shares 152,805

For the conversion of notes

payable (note 6) 10,667

163,472

8. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December 1977 the aggregate amounts paid or payable by the Company and its subsidiaries to seven directors in their capacity as directors was \$1,800 (\$2,550 in 1976) and to five officers and a director who is an officer of a subsidiary company \$193,660 (\$206,637 in 1976). Two of the directors are also officers of the Company.

9. OTHER INFORMATION

	1977	1976
Depreciation and amortization:		
Included in cost of sales	\$143,051	\$ 47,013
Included in selling, general and administrative expenses	15,485	10,501
	<u>\$158,536</u>	<u>\$ 57,514</u>

Interest:

On current debt	<u>\$174,879</u>	<u>\$200,907</u>
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auditors' report

To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited and its subsidiaries as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Kitchener, Ontario
February 22, 1978

Chartered Accountants

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
* D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* GEORGE H. MONTAGUE, Toronto, Ontario
* JAMES R. MULLINS, Puslinch, Ontario
DAVID B. WELDON, London, Ontario

* Member of the Audit Committee

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

BILTMORE



BILTMORE INDUSTRIES
GUELPH - CANADA
Limited

BILTMORE INDUSTRIES
GUELPH CANADA
Limited

*Six Months Report
June 30th, 1977*

BILTMORE INDUSTRIES LIMITED

and subsidiary Companies

Dear Shareholder:

On behalf of the Board of Directors I am pleased to submit the Consolidated Statement of Income and the Statement of Changes in Financial Position for the first six (6) months of this year. Shipments are 17% ahead of last year at \$3,877,017. Profits are \$47,115. vs \$36,260. The figures for last year are restated; they now include the hat operations for May and June of 1976. These months were excluded last year because of the proposed sale of the hat operations to the John B. Stetson Co. effective April 30, 1976. This deal was terminated August 31, 1976.

For the first six (6) months headwear shipments and earnings are approximately the same as last year. As you know, the majority of the profits from the headwear operation are realized in the last half of the year when shipments for the important fall season are made. This seasonality depresses earnings in the early part of the year and accelerates them in the latter half.

Results from Custom Leather Products Ltd. are quite encouraging. The consumer leather products business continues to contribute to the income of the company. Also, the first earnings from the automotive original equipment division are beginning to flow through.

Watson Brothers Ltd. results have been adversely affected by higher costs, and by highly competitive market conditions. We are hopeful that these conditions will improve and are taking all steps to maximize the operations over the long-run.

A dividend of 6¢ per share has been declared on the Convertible Preferred shares payable on October 15, 1977 to shareholders of record on September 30, 1977.

Yours very truly,

M. McMillan
President

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u> RESTATED
Sales	\$ 3,877,017.	\$ 3,321,590.
Cost of Sales	2,634,266.	2,222,295.
Selling, general and administrative expenses	1,159,636.	1,032,835.
	3,793,902.	3,255,130.
Net income before taxes	83,115.	66,460.
Income taxes	(36,000.)	(30,200.)
Net income for period	\$ 47,115.	\$ 36,260.

Earnings per common share based on the weighted average number of shares outstanding during the period

9.3¢ 5.6¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u> RESTATED
Funds were provided by:		
Operations -		
Net income for period	\$ 47,115.	\$ 36,260.
Add depreciation and amortization not involving an outlay of funds	40,654.	22,390.
	87,769.	58,650.
Sale of fixed assets	—	4,122.
	87,769.	62,772.
Funds were used for:		
Additions to fixed assets	59,607.	10,072.
Dividends	34,572.	34,572.
Reduction of long-term debt	2,700.	2,700.
Increase in cash surrender Value of Life insurance in subsidiary	489.	489.
	97,368.	47,833.
Increase (Decrease) in working capital	(9,599.)	14,939.
Working capital at beginning of period	1,385,389.	1,203,730.
Working capital at end of period	\$ 1,375,790.	\$ 1,218,669.